



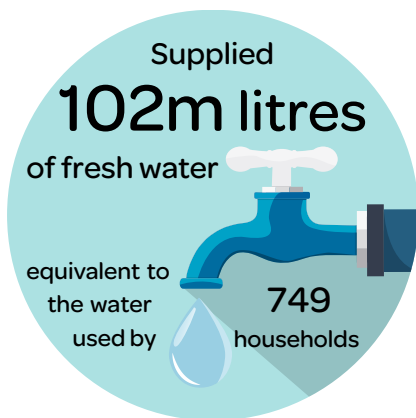
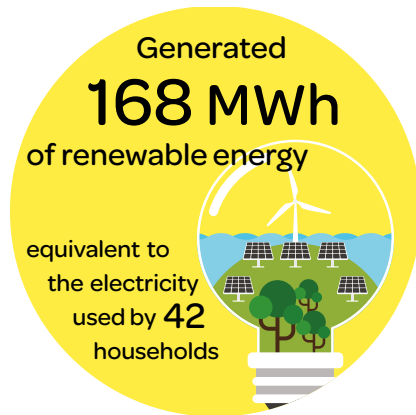
# Positive Impact Portfolios



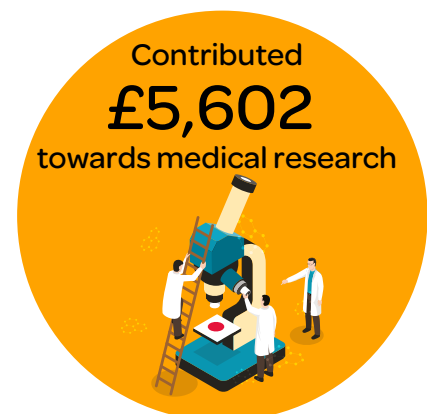
## IMPACT REPORT 2018

*Over the last year, £1m invested in the Adventurous portfolio has...*

Environmental impact



Social impact



In this report we set out:

- **12 new metrics** showing the absolute social and environmental impact of our portfolios for the first time.
- **Further evidence** that investing in companies making a positive impact is good for returns.
- **A complete mapping** of our holdings to the UN Sustainable Development Goals – backed up by case studies.

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## EXECUTIVE SUMMARY

From day one, our ambition for the EQ Positive Impact Portfolios has been to show that every investor can make a positive impact through their investments. We are constantly looking to improve how we report on impact, and we are pleased to share our latest findings in this, our second annual impact report.

Building on last year's report we present further evidence to support our hypothesis that investing in companies making a positive impact is good for returns. Whether you look at revenues, profits, or employees, companies held by the EQ Positive Impact Portfolios are growing significantly faster than those in the FTSE 100 Index. They are also investing significantly more in research and development, have a smaller carbon footprint, and source a higher proportion of their energy from renewable sources.

What's new? On the page opposite we are reporting on absolute measures of impact. This is a significant step for us that required a deep dive into the various reports produced by the hundreds of underlying companies that make up our portfolios. We wouldn't have been able to do this without support from the Centre for Environmental Policy at Imperial College London, and would like to thank them for collaborating with us.

Based on this research, we have launched an online tool that will show you exactly how much impact you have achieved over the past year, based on the size of your portfolio and its risk profile. Please do check out our 'impact calculator' at:

[eqinvestors.co.uk/impact-calculator](https://eqinvestors.co.uk/impact-calculator)

We have once again mapped our portfolio holdings to the United Nations' Sustainable Development Goals. This continues to be a useful framework for us to think about impact – the Goals shine a spotlight on the biggest social and environmental challenges facing our world, and provide focus and clarity on what is required to meet them. They also represent a huge opportunity for forward-looking and innovative companies – just the type we want to capture in these portfolios.

Over the last year we have seen record levels of growth in our assets under management and it really feels like we are at an inflexion point for impact investing.

Thank you for your continued support.

**Damien Lardoux, CFA**  
Portfolio Manager



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## OUR APPROACH

We believe that a company's impact is best reflected in its products and services: *what does it produce? What does it make? What does it do?* This is closely linked to the 'purpose' of a company – we are looking to invest in companies that are creating solutions to social and environmental problems, and not those that are just trying to minimise their operational footprint.

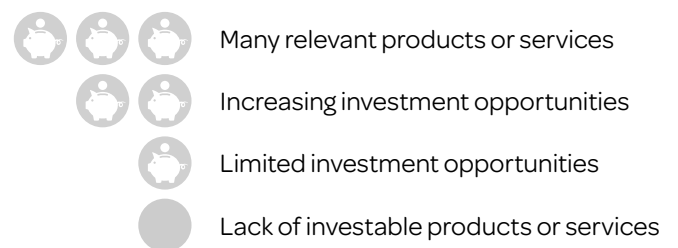
The United Nations' Sustainable Development Goals is a useful framework for thinking about impact. Launched following the 2015 Paris Summit, these 17 Goals address the big issues that nations have agreed to work together to address between now and 2030.

As investors looking for impactful products and services, some of the Sustainable Development Goals align with significant opportunities for our Positive Impact Portfolios more readily than others. For example, there are many investable opportunities contributing

directly towards good health and well-being (Goal 3) in the healthcare sector alone. On the other hand there are no products and services we can invest in that directly promote gender equality (Goal 5).

That being said, we also believe that a positive impact can be achieved by improving the way that businesses operate, and in this regard gender equality is high on our agenda across the board.

Here is an overview of the UN Goals along with a visual guide to where the main opportunities are, in terms of investable products and services:



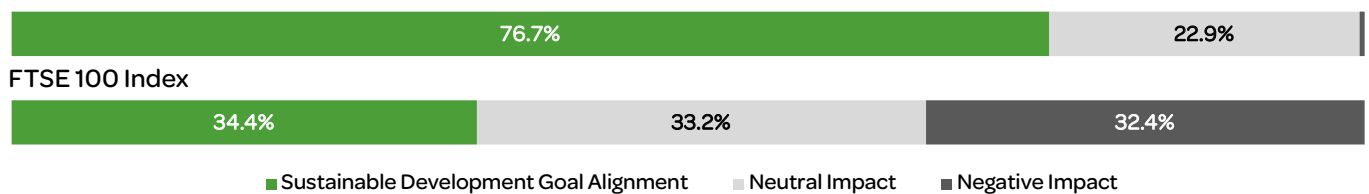
## MAPPING OUR PORTFOLIOS

We have mapped over 1,000 unique companies held within the Positive Impact Portfolios to the Goal that most accurately matches the impact of their product or service. We've done this by forming logical links between a company's purpose and the Goal's targets.

In the case of a company aligning with multiple Goals, we have selected the most relevant based on contribution to revenues. If no match could be made, the companies were recorded as neutral or negative.

The charts below show how the Adventurous portfolio compares to the FTSE 100 Index in terms of its overall alignment to the Goals, and into which Goals the money is invested.

### Positive Impact Adventurous Portfolio



'Neutral' describes companies whose core products or services do not have a clear positive or negative impact on society or the environment. 'Negative' describes companies whose core products or services have a detrimental impact on society or the environment: such as alcohol, armaments, fossil fuels, gambling, mining or tobacco.

## CASE STUDIES

### 3 GOOD HEALTH AND WELL-BEING



**ACTIVITY**



**OUTCOME**



**IMPACT**



Providing access to care and education for disadvantaged children is crucial to reduce inequalities and counter negative stereotypes within society. The higher the severity of the care need, the more significant the shortage of places available in England, requiring a joint effort by public and private care services.

The Cambian Group specialises in the delivery of residential care, therapeutic fostering and specialist education for children with high severity needs in England. This includes individuals with disabilities and individuals affected by trauma.

With as many as 88,000 children and young adults in England requiring high-severity care, The Cambian Group works in combination with the public sector to tackle this social challenge. Being independent, The Cambian Group provides additionality to NHS services through specialisation, for example, targeting the specific needs of deaf or traumatised children.

In 2017, The Cambian Group provided 1,920 children with specialist care across its 222 facilities. Of these children, about 650 were fostered, providing full-day care to cater for individual needs. Children are able to achieve better long-term outcomes, stabilise their lives and develop their potential for independent living.



### 8 DECENT WORK AND ECONOMIC GROWTH



**ACTIVITY**



**OUTCOME**



**IMPACT**



Financial inclusion is a key driver for alleviating poverty, and underpins the achievement of many of the Sustainable Development Goals, yet 1.7 billion adults globally remain unbanked.

Bank Rakyat Indonesia is an Indonesian bank focusing on extending financial services to micro, small and medium enterprises (MSMEs) and providing financial inclusion to the country's rural and remote areas.

The bank focuses on extending its mobile and internet banking to enable the rapid expansion of financial services across the country, and offers special savings accounts for rural populations. Micro loans are offered to encourage entrepreneurship across the country, with 73.5% of all loans disbursed to MSMEs.

Mobile banking users have been growing 21% year-on-year, with 50 million savings accounts reaching rural Indonesians (2016). The bank extended 5.1 million individual micro loans in 2017, significantly contributing to the microeconomics of Indonesia and empowering entrepreneurs.



## 6 CLEAN WATER AND SANITATION



ACTIVITY

OUTCOME

IMPACT

## ECOLAB®

Global freshwater resources are increasingly under threat by climate change and rising global demand from industry and agriculture, with two thirds of the global population experiencing water scarcity for at least one month per year (2016).

Ecolab is a water, hygiene and energy technology consultancy that provides solutions to enhance both operational efficiencies, cost savings and environmental benefits.

Customers apply Ecolab's improved technologies to their operations, focusing on water conservation and cyclical reuse. For example, Samsung worked with Ecolab to gain real-time insights into water usage during chip manufacturing.

In 2017, Ecolab's customers avoided about 650 million cubic metres of freshwater use through applying improved water technology solutions, helping to lower this increasing pressure on the world's scarce water resources. Through Ecolab, Samsung has saved the equivalent drinking water for 255,000 people annually in Austin, Texas – a water stressed region of the US.



## 12 RESPONSIBLE CONSUMPTION AND PRODUCTION



ACTIVITY

OUTCOME

IMPACT

## Brambles

On a finite planet, maintaining economic growth in the future will require us to use resources more efficiently. However, global material consumption per unit of GDP is still increasing.

Brambles is a global supply chain logistics company, based on the provision of reusable pallets, crates and containers. The company operates a circular 'share and reuse' business model.

By sharing distribution networks, Brambles' customers optimise their trade and shipment efficiency, and limit wasted resources that are characteristic to linear chains. For example, Walmart Canada has joined Brambles' collaborative transport project, with its empty truck journeys now contributing to the recycling of pallets in the shared Brambles supply chain.

Brambles global operations have saved 1.6 million trees from the reuse of pallets, saved 54,000 tonnes of CO<sub>2</sub> through collaborative supply chains and diverted 1.4 mega tonnes of material from landfill. Walmart Canada is coming closer to its zero-waste goal, recycling 2,000 tonnes of wooden racks through the application of Brambles' reverse logistics to its truck supply chain.



## MEASURING OUR IMPACT

### From maps to metrics

For the first time we have measured our portfolios' impact in relation to eight of the 17 UN Goals in absolute terms. We've presented these measures on the inside front cover.

We conducted a detailed review of each company's recent annual reports, disclosures and investor presentations to arrive at these metrics: they are the most frequently disclosed indicators that have a logical link to one of the UN Goals.

### Calculating impact

These metrics are based on disclosed company impact data. Since different companies report at different times, we have included either 2016 or 2017 data (whichever was most recent).

To measure the impact achieved by each investor, we calculate how much of the impact reported by the company can be directly linked to the amount invested:









$$\frac{\text{Amount invested}}{\text{Market capitalisation}} \times \text{Reported impact}$$

### Refining our approach

This analysis covers the equity portion of our portfolios only. The logic here is straightforward: shareholders are accountable for the performance of the companies they own. We do not currently have sufficient data or a robust methodology to include our portfolio bond holdings in this way.

Are you interested to find out more about how we calculate impact? We've published a case study using an example metric on our blog:

[eqinvestors.co.uk/blog/impact-methodology-2018](http://eqinvestors.co.uk/blog/impact-methodology-2018)

- |   |  |
|---|--|
| <b>3</b> GOOD HEALTH AND WELL-BEING<br>                | <ul style="list-style-type: none"> <li>✓ Number of preventative and diagnostic interventions made</li> <li>✓ Number of patients treated</li> <li>✓ Annual spend on healthcare R&amp;D</li> </ul> |
| <b>4</b> QUALITY EDUCATION<br>                         | <ul style="list-style-type: none"> <li>✓ Hours of education provided (school, university and vocational)</li> </ul>  |
| <b>6</b> CLEAN WATER AND SANITATION<br>                | <ul style="list-style-type: none"> <li>✓ Cubic meters of water saved</li> <li>✓ Cubic meters of freshwater supplied</li> <li>✓ Cubic meters of wastewater treated</li> </ul>                     |
| <b>7</b> AFFORDABLE AND CLEAN ENERGY<br>               | <ul style="list-style-type: none"> <li>✓ MWh of renewable energy generated</li> </ul>  |
| <b>8</b> DECENT WORK AND ECONOMIC GROWTH<br>           | <ul style="list-style-type: none"> <li>✓ Number of new people given access to banking services in developing regions</li> </ul>  |
| <b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE<br> | <ul style="list-style-type: none"> <li>✓ Number of new people given access to mobile networks in developing regions</li> </ul>   |
| <b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION<br> | <ul style="list-style-type: none"> <li>✓ Tonnes of waste recycled</li> </ul>   |
| <b>13</b> CLIMATE ACTION<br>                         | <ul style="list-style-type: none"> <li>✓ Tonnes of CO<sub>2</sub> avoided</li> </ul>   |



## BENCHMARKING OUR IMPACT

### Finding common ground

How do companies in our portfolios compare to a regular index like the FTSE 100?

To answer this question we've revisited the same four areas that we covered in our last impact report: **growth, innovation, carbon footprint** and **clean energy**, corresponding to Goals 8, 9, 13 and 7 respectively.

The data available in each of these areas varies – we've highlighted this in each section.

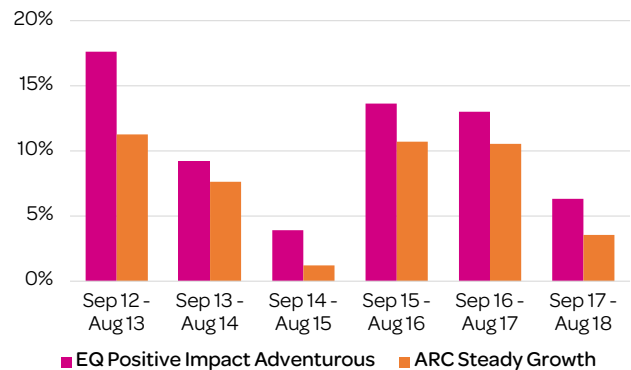
### Making comparisons

We have used a weighted average to assess the average performance of the Adventurous portfolio for a series of measures: revenue growth, profit growth, employee growth, research & development spend (including as a proportion of revenue) and renewable energy use. This allows for direct comparison between the Positive Impact Portfolios and a benchmark – the FTSE 100 Index.

To compare carbon footprints we have calculated CO<sub>2</sub> emissions and fossil fuel reserves per £1 million invested.

As with our absolute impact metrics, this analysis only considers our portfolio equity holdings – currently we do not have an equivalent methodology for benchmarking the impact of bonds, property or alternatives.

**Our focus on impact is not at the expense of financial returns – the EQ Positive Impact Portfolios have beaten their performance benchmark each year since inception:**

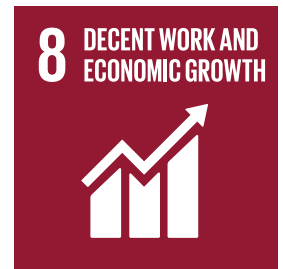


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## GROWTH

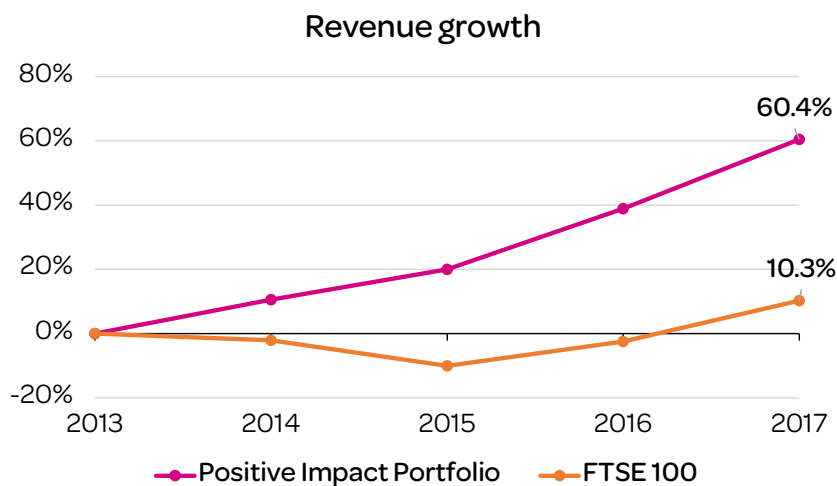
The growth story for companies within the Positive Impact Portfolios is compelling. Achieving sustainable economic growth is key to the sustainable development agenda, as expressed in Goal 8. In our analysis we have compared revenue growth, profit growth, and employee growth between companies in the Adventurous portfolio and companies in the FTSE 100.



## REVENUES

Companies in the Positive Impact Portfolios have grown much faster over the past 5 years than those in the FTSE 100. We would argue that this is not surprising, as companies with marketable solutions to real, pressing problems are well positioned for growth due to a high level of demand.

Data  
availability  
~100%



### Notes

The graph compares the weighted average change in revenue (i.e. net sales) for the companies in our Adventurous portfolio and the companies in the FTSE 100. Calculations based on revenue figures in local currency.

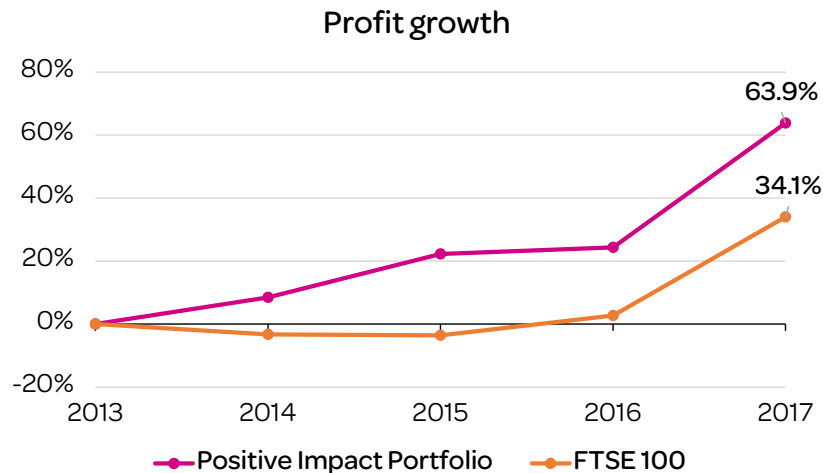
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## PROFITS

Profits mirror the pattern we see with revenues. Companies in the Positive Impact Portfolios have increased their operating profits faster than those in the FTSE 100. This is not surprising, as we would expect companies to generate more profits as their revenues rise.

Data  
availability  
80–90%



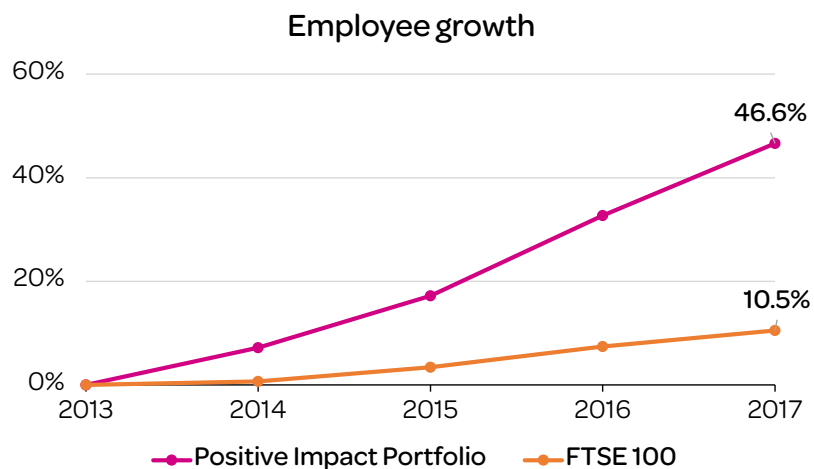
### Notes

We have used Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to measure profit as it is less prone to accounting manipulations than net income. Calculations based on figures in local currency. Financial services companies do not report EBITDA, so they have been excluded.

## EMPLOYEES

We see the change in number of employees as a good proxy for job creation. In terms of employees, companies in the Positive Impact Portfolios are growing much faster than FTSE 100 companies, with the largest increases being in the healthcare and environmental sectors, and in emerging markets.

Data  
availability  
90–100%



### Notes

Due to data availability we have reported overall employee numbers rather than full time equivalent (FTE) employees. Employee data can be distorted on the way up by mergers and on the way down by divestments. As we are aggregating data for many companies across a number of sectors we have assumed that these distortions balance out.

## INNOVATION

*This section looks at research and development (R&D) expenditure across the portfolios. Our companies are investing heavily in the development of new products and services, and this innovation is central to achieving many of the goals – especially Goal 9.*

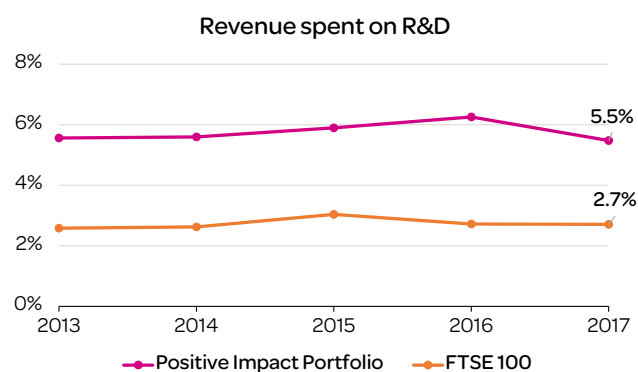
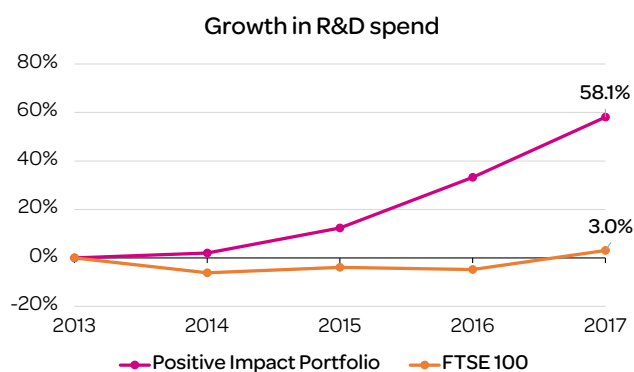


### RESEARCH AND DEVELOPMENT EXPENDITURE

On aggregate, companies within the Positive Impact Portfolios have increased their R&D spend considerably over the past five years, while those that make up the FTSE 100 Index have not. Our holdings are also spending consistently more on R&D as a proportion of their revenues.

Data  
availability  
~75%

R&D spend was not distributed evenly across the portfolios. The biggest increases, as well as the biggest contributions to portfolio R&D spend were seen in the healthcare and technology sectors globally, and in Europe as a region.



#### Notes

Calculations are based on expenditure figures in local currency.



## CARBON FOOTPRINT

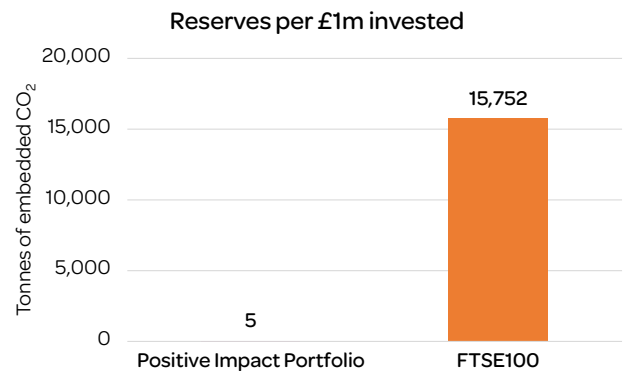
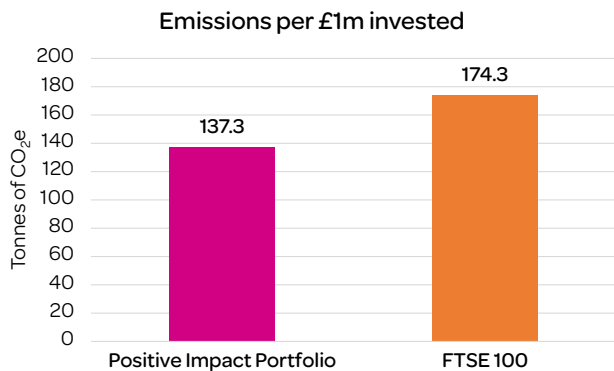
*Tackling climate change means reducing carbon emissions, and ultimately moving away from fossil fuels entirely. This section looks at how our portfolios compare in terms of operational greenhouse gas emissions and fossil fuel reserves.*



### EMISSIONS AND RESERVES

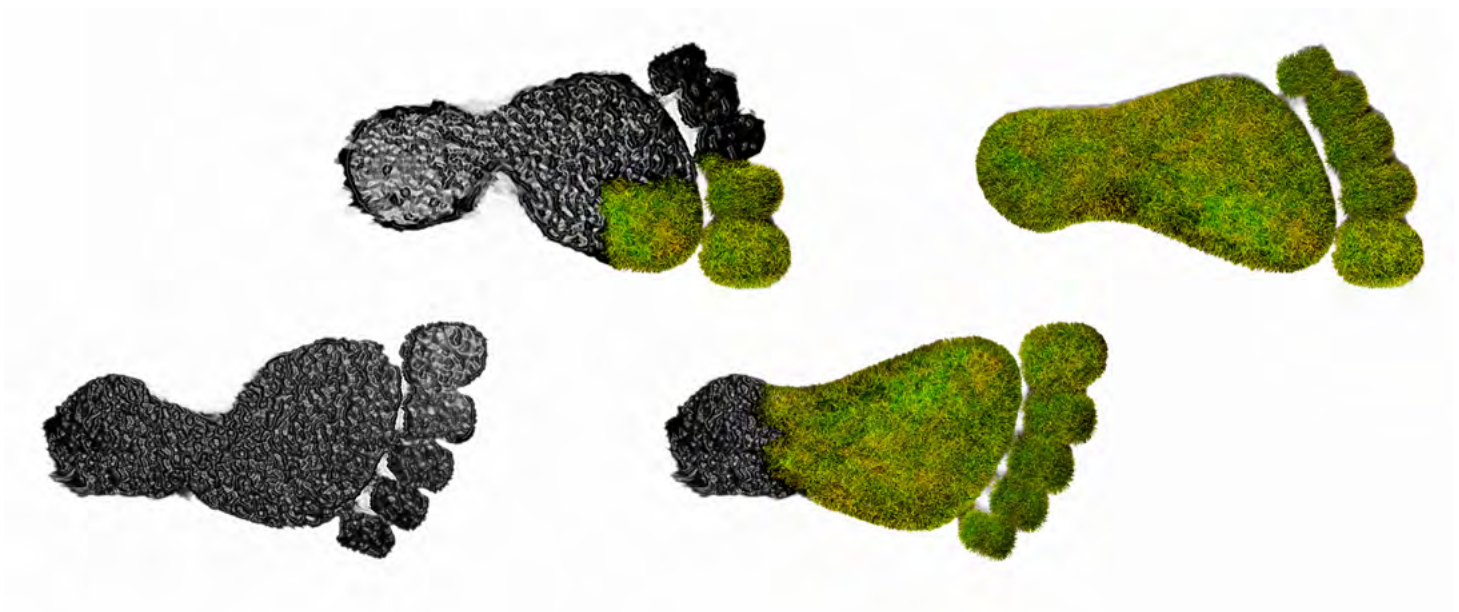
Companies in the Positive Impact Portfolios are emitting less greenhouse gas as a result of their operations, and have virtually no fossil fuel reserves when compared to the FTSE 100.

Our process naturally leads to the exclusion of fossil fuel producers and we have no exposure to the oil majors or any mining companies. However, the emissions figures are only approximate as ~40% of our portfolio holdings did not report.



### Notes

Our emissions calculation combines Scope 1 & 2 emissions as defined by the Greenhouse Gas Protocol – while carbon dioxide accounts for around three-quarters of total greenhouse gas emissions, in this year's report we have also included other greenhouse gas like methane and nitrous oxide to give a more complete picture. We have not attempted to estimate emissions for companies that did not report. The reserves calculation uses proven reserves for oil and gas and both proven and probable reserves for coal.



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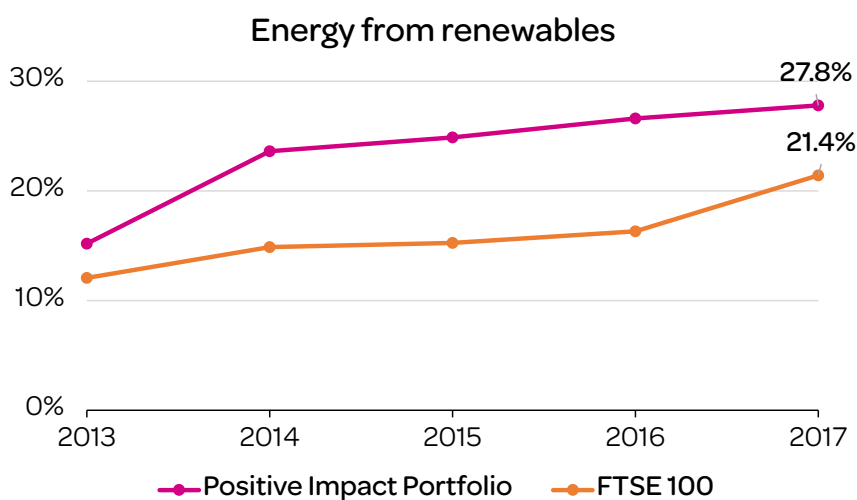
## CLEAN ENERGY

*One of the ways to reduce an organisation's carbon footprint is to purchase energy from renewable sources. We have included these findings last as the availability of data is still relatively limited.*



### RENEWABLE ENERGY USE

It is encouraging to see that renewable energy usage is higher across the portfolio than for FTSE 100 companies. Part of the higher usage of renewable energy for the portfolio can be explained by the exposure to companies in the renewables sector. For example, the Danish company Vestas, one of the biggest manufacturers of wind turbines, uses renewable energy for over half of its total energy needs.



#### Notes

Due to the relatively low availability of data we looked to see whether companies were selectively reporting – i.e. only when they had a good story to tell. Fortunately the data suggests otherwise, with companies quoting a wide range of figures.



## ENGAGEMENT

*The EQ Positive Impact Portfolios invest exclusively through funds. We are active investors, and an ongoing dialogue with our fund managers is core to our investment process: we aim to influence their voting practises at annual general meetings while pushing them to report more on their impact.*

### The importance of active engagement

Over the last year, one area of focus has been the exposure to ‘neutral’ companies, by which we mean companies whose core products and services are neither detrimental nor make a material positive impact to society or the environment. Whilst these companies are moving in the right direction by reducing the social or environmental footprint of their operations, they are not the solution enablers or providers which are directly supporting the UN Sustainable Development Goals.

At each meeting with fund managers, whether a current investment or potential candidate for the portfolios, we question the rationale for such ‘neutral’ companies and encourage them to review their investment and impact case. For example, our green bond fund last year had a 10% exposure to non-green bonds, meaning bonds which are not directly financing a green project in sectors like renewable energy or energy efficiency. We engaged proactively with them on this – arguing that the number of green bonds being issued globally continues to rise, and they should no longer need to look outside the green bond universe to build a well-diversified portfolio. We think it is important to push for change, and as we publish this report the manager has confirmed a 100% exposure to green bonds.

We also don’t shy away from questioning specific holdings. Last year, a red flag was raised when we discovered that one of our selected fund managers had added a small position in an energy company. Whilst

this company, operating in emerging markets, had a better energy mix than its peers by focusing primarily on gas – and as a result had lower carbon emissions than its peers, we argued against the need to support companies drilling fossil fuels and exploring new fields. After several months of active engagement, the fund manager came to the same conclusion and divested its exposure to this company.

### Reporting on impact

In comparison to our first impact report published last year, we no longer rely on our fund managers to measure the impact achieved by each of our funds. Having built capabilities and expertise in house, we are now able to measure the impact achieved by the companies we invest in using over 100 different social and environmental indicators. Not only does this data help us to improve our understanding of the impact achieved by each of the companies we invest in, but it puts us in a position to push our managers to improve their reporting practices.

With about 50% of the companies we invest in still not disclosing the impact achieved by their products and services, we are strongly advocating our fund managers to explain the importance of such data to the companies they invest in. We see this as an impact multiplier, helping to improve data availability over time – and as a result naturally increasing the reported impact achieved by each one of the investors in the EQ Positive Impact Portfolios.

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# EQ investors

EQ Investors is an award-winning boutique wealth management company based in London. We manage investment portfolios of all shapes and sizes, offering a tailor-made range of strategies.

The **EQ Positive Impact Portfolios** are designed for investors who want their money to make a positive contribution towards society and the environment.

We can provide both bespoke and model portfolios and will always ensure that your investments reflect the right level of risk for you.

We invest through funds and always diversify portfolios across the broadest possible range of asset types, including equities, bonds, property, alternatives and cash.

Certified  
**Best For**  
**The World**  
**2018** Customers  
Honouree

To find out more visit:  
[eqinvestors.co.uk/positive](http://eqinvestors.co.uk/positive)



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